

COMMITTEE ON WATER AND SANITATION
(Standing Committee of Berkeley County Council)

Chairman: Mr. Timothy J. Callanan, Council Member District No. 2

A **Water and Sanitation Budget Workshop Meeting** of the **Committee on Water and Sanitation**, Standing Committee of Berkeley County Council, was held on **Wednesday, May 19, 2010**, in the Assembly Room of the Berkeley County Administration Building, 1003 Highway 52, Moncks Corner, South Carolina, at 6:08 p.m.

PRESENT: Chairman Timothy J. Callanan, Council District No. 2; Committee Member Phillip Farley, Council District No. 1; Committee Member Robert O. Call, Jr., Council District No. 3; Committee Member Cathy S. Davis, Council District No. 4; Committee Member Dennis L. Fish, Council District No. 5; Committee Member Jack H. Schurlknight, Council District No. 6; Supervisor Daniel W. Davis, ex officio; Mr. David A. Jennings, Attorney representing Berkeley County Water and Sanitation; and Ms. Barbara B. Austin, Clerk of County Council. Committee Member Caldwell Pinckney, Jr., Council District No. 7, and Committee Member Steve C. Davis, Council District No. 8, were excused from the meeting.

In accordance with the Freedom of Information Act, the electronic and print media were duly notified.

Chairman Callanan called the meeting to order. Mr. Colin Martin, BCWS Executive Director, gave the Invocation, and Committee Member Cathy Davis led in the Pledge of Allegiance to the Flag of the United States of America.

Bill No. 10-12, an **ordinance** providing for the adoption of **fiscal year 2010-2011** (beginning July 1, 2010 and ending June 30, 2011) **budgets** for the Berkeley County Water and Sanitation and the Berkeley County Water and Sanitation Solid Waste Fund; establishing operational, debt service and capital improvement budgets for water and sewer; and to provide for the expenditures of revenues coming into Berkeley County Water and Sanitation and the Berkeley County Water and Sanitation Solid Waste Fund during the fiscal year, and to amend the Code of Ordinances, Berkeley County, South Carolina, setting rates, charges and penalties for water and sewer and solid waste service by **Berkeley County Water and Sanitation** with no increase in rates or fees.

Chairman Callanan: "Ok; we just have the one item on the agenda, which is discussing the Water and Sanitation Budget. And, that will be started off by Colin Martin?"

(A copy of the Powerpoint Presentation, "BCWS FY 2010-2011 Proposed Budget", presented by Berkeley County Water and Sanitation this night, is attached herewith and, by this reference, made a part hereof.)

Overview

Mr. Martin: “Yes, Sir. Thank you, Mr. Chairman, Members of Council. What we’re gonna do this evening is to give you a lot of information, only part of which is the Fiscal Year 2011 Budget. That is the meat of it, but there’s other things that make this budget work, and we want to make sure you’re informed. I’ll start out talking about Fiscal Year 2010, how we’re doing this year and what we project to have when we finish the fiscal year. Then, Ms. Connelley will stand up and present to you the Fiscal Year 2011 Budget. Mr. Miley will talk to you about the changes we’ve made in the Capital Improvement Plan. We do have some guests, Michael Seezen and Dan McLeod, from McNair Law Firm, and Brian Nurick, from Ross, Sinclair & Associates. And, there’s a couple of complicated issues at the end of our presentation, and they’re the experts that can address those. First of all, I want to give you the punch line. This is the bottom line on the Fiscal Year 2011 Budget. It is a balanced budget, with no increases in fees or rates. We have updated and tweaked our workforce slightly. It adds two positions, deletes two. It brings up about what Mr. Miley’s going to do – is talk about this new model that we have for determined value and viability of potential capital projects, and also, we’ve done a complete overhaul of the presentation of the Capital Improvement Plan, so we’ve got better standardization, better visibility and, certainly, more transparent accountability. And, we do have two major challenges. We have solutions recommended for both.”

Fiscal Year 2010 Projections

Mr. Martin: “This is Fiscal Year 2010, as of three-quarters of the way through the year, 31 March. You can see that – we’ll do Solid Waste first. They’re showing 77 percent of their revenues, but that’s a little misleading in-as-much as they get most of their revenues in January – December and January with the tax bills, and then, that’s used throughout the year. In fact, their revenues are off significantly this year, more so than we thought they would be. In Water and Sewer, this 77 percent is running slightly higher than the normal. Our revenues are coming in a little bit stronger, and the expenses are trailing budget a little bit. Again, this is a little misleading, because we have a \$10,000,000 debt payment that we’ll make before June 1, but we still anticipate a savings of 2.8 million dollars in the Sewer and Water Account.”

Sources of Water & Sewer Savings

Mr. Martin: “This is where those savings came from: in two cases, revenue, and four cases, expenditures. The impact fees, we were surprised to see the number of impact fees paid. We estimated quite a bit less, and that managed a savings of just over \$1,000,000. Connection fees, likewise, and that comes in right at \$465,000 in savings, unexpected from our previous estimates. Fuel, we thought fuel prices were going higher. We budgeted \$3.50 a gallon for gas, for instance. We’ve been paying about \$2.30, an average for this last year. So, that certainly brought in some savings. Personnel, with some frozen positions, with some vacant positions, and with trimming travel and training, we come up with about \$700,000 in savings. We did have a good year as far as maintenance is concerned. We did not have any major equipment casualties, and so far, we project a savings of \$429,000. And, utilities was a little less than we anticipated, saving a little over \$100,000 there.”

Challenge #1 – Funding the Highway 17-A Project

Mr. Martin: “I told you we had two challenges. This is Challenge #1, as the funding of the Highway 17 Project, we have nearly 35,000 linear feet of pipe that have to be moved. Originally, it appeared that that could be – cost for that would be covered and reimbursed by the one cent tax. With the recession, that money isn’t coming as fast as we thought, so we must assume the obligation of funding that. The cost is 1.9 million dollars, of which 1.5 is in Fiscal Year ’11. And, I believe, with the savings that we accrued in Fiscal Year ’10, that can be used to offset those costs.”

Fiscal Year 2010 Accomplishments

Mr. Martin: “I just want to run through a few accomplishments, real quickly, that we achieved in Fiscal Year 2010. The Engineers were quite busy. They did a complete review of our specifications and had significant stakeholder involvement with private engineering companies to help with that process. They mapped their process of review of construction and close-out documents, found some overlaps when they mapped it, and have streamlined that process. Then, these next two are the ones that I mentioned earlier that Mr. Miley will address later on. As you know, the well field is up and operating right now – the Landfill Gas to Energy System. And, I think, more importantly, we’ve created a fairly unique partnership with Santee Cooper, Blue Source and Google. And, I hope you all are able to come on the 26th of this month to celebrate that partnership. We passed the five-year mark both at the Landfill and with the sanitary inspections of our water system – five years in both of those areas with no reportable discrepancies. Ok; significant strides in the Lower Berkeley Wastewater Treatment Plant (LBWWTP) – I won’t go through these, but we’ve really fine-tuned it in a lot of ways, and that’s in great deal thanks to Mr. Jimmy Crepeau, who came on as our Deputy Director of Operations. He’s made – brought in a lot of new ideas and made these changes. Right now, our Wastewater Treatment Plants are running about as well as they can. We have installed the City Works CMMS System (Computerized Maintenance Management System). It’s installed. We’re training to it, but by this Fall, we should be up and running with that system. And, that will be quantum leaps in our ability to run the operations. We did create a Facilities and Fleet Management Division and hired a manager, as you authorized in the last budget. That’s made significant difference in the maintenance of our buildings and managing our vehicle fleet. Our finance – in the area of finance, we continue to get better. Our accounting practices and budgeting practices have been commented ‘very well’ by our auditors. We now have, with the implementation of the pay-by-phone system and e-billing, every conventional way that you can pay your bill, we have available to our customers now. We were pleased to see that Stacy Harris was recognized at the state level with a Leadership Award. We did gain some customers this year, 424 so far. Look back at our last workshop for the previous budget, and we had 392 new accounts at that time. So, this represents about 1.6 percent growth in customer accounts. Our Customer Service Request System that we briefed you on, actually, it was just installed. We’ve responded to 2,700 requests with that system, that computerized system. We have implemented an on-line data application system making it not only paperless, but also more responsive. The applicant can go online and see the status of their application without calling on the phone. One that I forgot to put up here is for the second year in a row, we received the Sustained Excellence Award at the state level for our Risk Management.”

Fiscal Year 2011 Initiatives

Mr. Martin: “Here’s a few initiatives that we’ll be working towards in Fiscal Year 2011, to fully implement City Works, as I mentioned, and a new utility billing system. Our system is antiquated and requires a lot of manual entry. We need to close out Cells 1 and 4 at the Landfill. We will begin, we think, in September, selling gas to Santee Cooper, and that will bring in an additional revenue stream. The leachate that’s coming out of the Landfill has become more and more acidic. Now, our first pump station down the line is getting eroded and corroded rather rapidly, so we’re gonna need to put in a pretreatment facility. We have this concept to Assign-a-Highway Program. This is a program that we borrowed out of, the concept at least, from several counties in Virginia. It allows the judge to assign probation, people going on probation or parole, a section of highway as a condition of their probation or parole to keep clean, keep litter-free. Our Litter Control Officers would simply inspect on a periodic or surprise basis. If that section of highway isn’t being kept clean, they get one written warning. The second time, they go see the judge. It’s a concept that we’ve got right now, the guidance to it written, and we’ve sent it to Judge Dennis, as well as the probation and parole people. When they give their ‘up’ check, we’ll bring it to ya’ll. We anticipate having the Burntwood CDBG Project approved. We can get started on that. We do want to look at some new performance measuring methodologies. We believe that you can’t manage what you don’t measure, and with these other new systems coming online, we’ll have greater data, and we want to look at a methodology of taking that data and turning it into information. Flexnet continues on schedule. Anticipate 14–15 months from now, and it will be full up and running. We hope to develop this website. It’s a project status website that would allow the private developers to call up that web page and to see what the part of the status is of that project when it’s in our control. And, as the Comprehensive Plan is approved this Fall, we believe we’ll need to update our Water and Sewer Master Plans. Now, I’ll turn it over to Ms. Connelley, who will present to you the FY 2011 Budget.”

Fiscal Year 2010-2011: Revenue Summary

Ms. Connelley: “I’ll start off with the revenue summary for FY 2011. In the rate revenue, we’ve included a two percent increase for water customers and a three percent increase for sewer customers just based on the past years’ trends that we’re seeing. On the impact and connection fees, we’ve budgeted, last year, we budgeted for Fiscal Year ’10, we budgeted 1.8 million dollars, and we are estimating our fiscal year in collections for FY ’10 to be 3.3 million. Therefore, for Fiscal Year ’11, we budgeted 3.7 million dollars, because it looks like we’ve done fairly well this past year with that. On the solid waste revenues, revenues for solid waste are projected to remain down for the upcoming year. We’ve only increased, actually, the solid waste user fees by about 140,000. We budgeted 7,000,000 last year, and I’ve only increased that by about 140,000 this coming year. We reduced our estimates this year in several categories. One of them, for instance, MSW, we budgeted, roughly, 105,000 last year, and we’ve only collected less than 20,000 so far this year in MSW. And, C&D has been really bad. We budgeted 755,000 for FY ’10, and we’ve only budgeted 525 for the upcoming year based on what we’ve seen so far this year.”

Committee Member Fish: “Johnette, let me ask you a question.”

Ms. Connelley: "Sure."

Committee Member Fish: "What's the 'Other' Category, and what was it?"

Ms. Connelley: "Other revenues include like plan review fees, construction fees, hydrant usage, legal transfer fees, bad checks, grease traps, a lot of different miscellaneous fees, no rate revenues, no impact connection fees. It's pretty much everything else."

Committee Member Fish: "Where's the payment from CPW to us? Where does that show up?"

Ms. Connelley: "The payment for CPW?"

Committee Member Fish: "To pay us to back off from buying the waterline. I understand they are paying us so much a year?"

Ms. Connelley: "No, not yet."

Committee Member Fish: "Not yet."

Committee Member Fish: "Not yet?"

Ms. Connelley: "Yes, Sir."

Fiscal Year 2010-2011: Expense Summary

Ms. Connelley: "On the expense summary, for personnel in FY '10, we budgeted 12.7 million for personnel. In citing some savings that we had in FY '10, we reduced that request to 12.4 this year. For operating and maintenance, we had some increases in utilities for the upcoming year of FY '11, power, water and telephone data, for instance, putting in the flare, we added some more bandwidth that we're gonna have to pay for to transmit information back and forth from the flare. We've also reduced some costs, though, for equipment and vehicle maintenance. Primarily, that's due to the Vehicle Replacement Plan that we put in place. And, a lot of the new equipment that we just purchased for Solid Waste this year comes with maintenance. Plus, we recognized some savings in FY '10 for that too, so we were able to reduce some things there."

Fiscal Year 2010-2011: Expense Reduction Summary

Ms. Connelley: "Here's a slide that, basically, shows some of the reductions that we made to balance the FY '11 Budget. I mentioned vehicle and equipment maintenance earlier, so that's there, obviously. And, we reduced the request for some system maintenance, again, citing the fact that we did have some savings in FY '10. Those are always iffy, because like Colin said 'knocking on wood', you kind of hope that you don't have a lot of failings, and we've had a good year this past year with that. We also reduced our request for capital equipment, as well,

for FY '11, and you'll see the majority of that is for Solid Waste. As I said before, their revenues are projected to remain down this year, and a big part of their budget is, typically, capital equipment. We had to cut some of that out this year to try to balance the budget. Originally, on personnel, there were five requests for new personnel in the FY '11 Budget. We will only be recommending two of these in the FY '11 Budget at this time. I will go over those more in just a moment."

Fiscal Year 2011 Compared to Fiscal Year 2010

Ms. Connelley: "This is just a comparison of the FY '10 Budget to FY '11, and, basically, you can see it remains fairly flat from one year to the next, but I wanted you to see the side-by-side comparison of it."

Fiscal Year 2010-2011: Personnel Budget Highlights

Ms. Connelley: "On the Personnel Budget Highlights Slide, like I mentioned a moment ago, we have two positions that we are proposing for FY '11, and we also have two positions that we are proposing to eliminate – two current positions that are, at this time, vacant. There are nobody filling those positions at this time. Having said that, let's talk about the first position. The first position is an Inflow and Infiltration Technician. Since there was a day in time that I didn't know what this meant, I thought it might be good to go over what inflow and infiltration is. Inflow, as Micah so handily explained to me – inflow represents holes, and infiltration represents leaks. So, that kind of helps to explain what this position is about. We have seen an increased amount of run times from pump stations, and a lot of its due to missing manholes, leaks and broken or missing cleanout caps. And, we often find people have removed the cleanout caps to drain water off their yards. So, you know, this is a pretty major thing, and I say that, because we pay for contractual treatment a lot, and this – we've had open manholes that are missing manholes like that. Sometimes, it makes our costs go up if we have to pay for that treatment of that water. This position locates holes and leaks in the sewer system from abandoned lines and/or stolen or missing manholes, and maintains weekly flow monitoring for six months. They also would inspect over 200 food establishments bi-annually to enforce our Grease Trap Ordinance. Now, the second position is a Maintenance Helper/Groundskeeper, if you will, but this position would allow us to assist the current Maintenance Helper with trimming shrubs and weedeating and applying herbicide and cutting grass at over 130 pump stations, along with four water towers and maintaining the grounds at the Admin Building and the Landfill Radio Tower. We currently – this will also help us eliminate a contract. It's about \$21,500 that we currently pay for assistance with this. So, we would be able to eliminate that, as well. As I said before, we propose eliminating the two existing positions there. There Accounting/Purchasing Clerk was actually a position that was in Finance. This person, I used to share with Purchasing downstairs, and we've seen such relieve in having to do PO's. We've actually seen that drop by using the P-Card. Then, I was able to spread out the duties that person was doing for me, so we were able to eliminate that position at this point. The Meter Reader, we can eliminate this position, due to FlexNet coming on. This is part of the phasing in of FlexNet. As we phase that in, we're able to eliminate another Meter Reader at this point. The net expense – net positions is, obviously, zero. Net expense would be an additional \$7,789."

Ms. Connelley: "At this point, I'm going to ask Mr. Micah Miley to come up, and he's going to present a new model for determining value and viability for capital projects and a new format he has produced for reporting capital projects."

Chairman Callanan: "Can I ask you one question?"

Ms. Connelley: "Sure."

Chairman Callanan: "Do you have the Fund Balance figures?"

Ms. Connelley: "Do you want to go over them now, or you want..."

Chairman Callanan: "Are they part of this at all?"

Ms. Connelley: "No, no, no; no, I brought them on a sheet."

Chairman Callanan: "Can you just let us know what they are, and then move on?"

Ms. Connelley: "Yeah."

Chairman Callanan: "Micah, if you don't have them ready, I'm sorry."

Ms. Connelley: "If you like, you want me to just read them out?"

Chairman Callanan: "Yeah, that's fine."

Ms. Connelley: "Ok; for Water and Sewer, the Fund Balance, the Unrestricted Fund Balance is 18,388,858 and the restricted, which includes the Sinking Fund that I have set up for bond payments and includes, also, the 2005 Bond proceeds. It's 80,605,714. And, the 69,427,830 is the bond proceeds out of that."

Chairman Callanan: "So, you're using 80,000. It's 80,000,000."

Ms. Connelley: "Eighty million, right; I'm sorry; it's 80,000,000, and I'll give you a copy of this. The Solid Waste Fund Balance, unrestricted, is 11,019,489, and the restricted portion is \$1,581,201."

Chairman Callanan: "Do you have percentages on this?"

Ms. Connelley: "The percentages, currently, are right at 59 percent, I think, for Water and Sewer, because I put the estimated June 30th number on here for you."

Chairman Callanan: "Ok."

Ms. Connelley: "And, Solid Waste is right at about 75, I think."

Ms. Connelley: “Are you ready for Micah?”

Chairman Callanan: “Yep.”

Value & Viability Evaluation

Mr. Micah Miley, BCWS Engineering Director: “The first topic I’ll speak on tonight is the Value and Viability Evaluation. When putting this together, we were primarily looking at Water and Sewer extensions and refurbishment projects. We have not considered regulatory-required projects in this. What’s required by a regulatory agency is something we have to do. And, we also need to add to it to accomplish our rate projects that are not regulatory-required and are not adding customers, as well, such as some of the improvements we do in Solid Waste Convenience Center Sites.”

Value & Viability Evaluation Process

Mr. Miley: “When we were setting this up, and we were going through our considerations on everything that we needed to look at, the first thing we wanted to do was keep it as objective as we could, minimize the amount of subjectivity a reviewer could put into the project. Next, we wanted, of course, look at the economics of the project. The socioeconomics of the project – make sure the project is needed and wanted. And then, look at the operational impact. Some projects could have negative or positive impact on our existing operations.”

Value & Viability Rating Categories

Mr. Miley: “We have created six different categories to help with this rating process, and I will step through each one of them and explain some of the details that went into the thought process for them. First of all was the cost analysis. The first thing we had to do is establish a cost opinion to make sure that the cost opinion was including all of the different costs that we would expect to see with a project. Some of the costs that aren’t always seen, as wetland permitting, additional directional drills that have to be done to take into account wetlands. And, we want to make sure that the cost opinion’s complete, and all of those issues are included. Next step would be the qualified services or the new customers that are going to be added by the project for the evaluation. We do not have the mandatory tap connections, so we’re going to rely on surveys of the people who are supportive of the project to account for the number of people who would be connected to the project. We’re not planning to use any growth estimates. We’re only going to use what was estimated off of the survey – came off the surveys for supporting the projects. The next key was to look at the fees that these customers would be paying and what percentage of each one of the fees would be used for payment of funding the project. Impact fees is the first fee. First, we have capacity reservation and an impact fee, where capacity reservation was, primarily, looking at our transmission system and our treatment plants, and impact fees looking at our services and distribution system. We followed that mentality, and said half of the impact fee paid would be applied toward the construction of the project. The connection fee, we are applying 100 percent of the connection fee paid by the customer. And, because of that, we’re including all costs for setting the service along with the cost opinion. And, the final item would be the monthly bill. We are looking to use 100 percent of the monthly

bill for paying back the project, and we're doing that because we're looking to get projects that are returning in the 10–15 year range. The O&M that goes into a system early on in the system's life is very small, so we're looking at 100 percent of the bill. To evaluate all of the projects on an even playing field, we gonna make the assumption that we would borrow money, and we would borrow this money at prime interest rate, looking at Wall Street Journal prime interest rate, and we would use only the fees that are being paid from the project as the payments. If this was an O&M project where we were doing some rehab and refurbishment, we would look at the potential O&M savings to go in for paying it back. Based on that, we would look at a 10-year project or a project that would pay off the money in 10 years as receiving maximum points. Anything that took over 25 years would receive no points from the cost analysis. The next topic would be public support. We are looking to do surveys in all areas where extending water and sewer. On the survey, it would be, simply, the potential customer responding that they're willing to connect to the system. With that level of participation from the customers, we're looking for 75 percent to get maximum points, and below 60 would get no points. We are using the CDBG Survey that goes a bit deeper. It looks at the person's finances, asking them much more detailed questions, and they also sign a form that says they will participate into the project. That additional customer involvement during the survey process – we believe those customers that say yes, they're gonna participate, are much more likely to still be there when the project is completed. For that reason, we're willing to reduce the maximum points down to 60 percent response from the area. The other thing we're looking at is a user agreement. It's a topic that we'll have to bring to you guys for approval, but with a user agreement, we would go through the survey process and then have the customer make a small donation back toward the project, so they are financially tied and agreeing that they're gonna support the project. With that, we know we could drop down to 60 percent being a good number. We've also had some areas developed and submit petitions to us wanting service in the area. We feel they should get a little additional look, because they have taken that much advance on their own part to approach us about service. And, through our service request system, we're also monitoring all the telephone calls to come in for service to a particular area. Public health and safety is the next topic. For the most part, you can look at someone's drinking water and tell a lot about what their wells are doing, as well as their septic tanks. Fecal coliform is the first test we run, and as the name suggests, it would be fecal matter present inside of the water system. Any of the samples that we would pull in the area, if it came back positive, we would say that it qualified as a bad service area. Total coliform is a naturally occurring bacteria in an area. The health risks of total coliform increase for those who have weakened immune systems, such as children and elderly, so we would say it takes 10 percent failing samples to qualify there. And then, there's secondary limits, items like chloride, iron in the water. Those don't present, necessarily, a great health risk, but do diminish the quality of water the residents are drinking. For that point, we would say 25 percent of the tests taken would have to fail. DHEC also has an Eminent Health Hazard List that looks at an area, and rates the area based on septic tank performances and different things on the risk to the residents in the area. If an area is on the DHEC Eminent Health Hazard List, we would say it qualifies for that category. The next topic is Economic Development/Master Plan. At times, we will have an economic development project locating into an area, and a water or sewer would be needed to support the industry. The other is support of the Comprehensive Plan of the County. We are looking to make sure our Water and Sewer Master Plans supports the Comprehensive Plan completely. And, if a project is doing that for the County and for Water and Sanitation, it would qualify for that category. The fifth topic is green projects. What's going on right now

with everybody looking at trying to get green and reduce the carbon footprint, we're looking to what EPA defined in the ARRA Act as a green project. With that, there would be a point or two given to the project just because of its green side. The sixth topic is operational impact. This is where we've taken the work that Steve and his guys in Operations have done with asset management, look at the criticality, the age of our system, the material that all the parts and pieces are, go further to look at the efficiency of how well the system is operating, look at some of our history for back-ups and sanitary sewer overflows, and look at how we're meeting our capacity and meeting the goals of the Comprehensive Plans and the internal plans we have for service to the areas. As you can see, these items that we're talking about are fairly objective items to look at. These are not subjective in taste on how you rate them. It's fairly straight forward on what goes into it."

Value & Viability Burntwood CDBG Water Project

Mr. Miley: "We've prepared the rating of the Burntwood Water Project you guys have seen this year as the new project going forward with CDBG. We do – in going through this, we would consider this to be, probably, the perfect project, based on the level of cash that Water and Sanitation is putting into the project, how good the public support is, and the water samples that have failed in the area. We used our matching funds. The matching funds of the project is really nothing more than waived fees as being the only costing on the project, which we could pay back with the bills coming in, in three and one-half years. Public support – we have 95 percent support for the project from the area that we're going into. We did have a well to fail for fecal in the area of the ten we pulled, and we've had three that failed on total total coliform. Different to that, because this is a new project going into an area, you'll see that quite a bit of our system improvement ratings, because we're not replacing existing piping, we get zeros in that area. The only points we picked up from system improvements is, we believe, we can reduce the flushing station that's at that dead-end line, because we don't have drinkers of water right at the end of the line. And, we are gonna carry fire protection into the area to support the community. With that, this project rated 73 points. To-date, with this being – kicking off this project, I cannot tell you what's gonna be a good project as far as the number you should look for to find. I will tell you 73 is, probably, as close to perfect as we'll be able to score. This same rating form, along with the financial calculations and all of the documents that went to prepare that will be made available to you when we bring a new project forward for funding. That way, you will know that we have looked at all of the different aspects of a project, economic as well as socioeconomic, before presenting it to you for funding."

Capital Improvement Plan

Mr. Miley: "The next topic, switching gears a little bit, is talking about the Capital Improvement Plan."

New Format for Capital Improvement Plan

Mr. Miley: "The format of the Capital Improvement Plan in the past has been a single sheet of paper, it laid out all the projects talked about when we were explaining to spend money on it, where the funds were coming from, and we've taken that and used standard templates to

better provide the information to you and make it easier to follow. We're staying with the fact that we're producing a Capital Improvement Plan for each of the three funds, and we're using, as I said before, these three-form templates to provide the information to you. The first two, the funding summary and the capital project summary, is breaking apart what was on your previous Capital Improvement Plans into two separate sheets. And, we're also providing you with a new capital project detail sheet that gets much more into the detail of the project."

Headers and Footers

Mr. Miley: "First of all, when you go through and you look at your documents, we have set up standard headers and footers on each one of the pages. And, there's three pieces of information that are important to note on all of these headers. First, underlined in blue, would be the title of the sheet that you're looking at. It helps a lot with us knowing whether we're looking at funding or whether we're looking at the planned expenditures on the plan. Second, would be the page number. This example on the board is the Water CIP, and it's taking Page 6 of 17. As things change, and we're planning quarterly to provide these updates to you, we would only provide you with sheets that have changed. That way, you would know these are the only sheets out of the 61 possible sheets that have changed and can trim down the amount of information you have to look through to see the changes. And, finally, at the bottom of the page, would be the date that the paper printed. Keeping that in mind, that date will change as we go through and give you updates on each one of the projects."

Funding Summary Sheet

Mr. Miley: "Looking independently at each one of the sheets, starting here in the blue area on the Funding Summary Sheet, this is where we give you the funding abbreviations that we're using, as well as define the funding source. In the past, we've used some abbreviations that haven't really meant a whole lot as far as what they've been used for, such as CIF. CIF, now, has been replaced by AA 11. That lets you know that that's annual authorization of funds in FY '11. Continuing that example across for the coming budget year, we're asking for 569,000 in annual appropriations for the Water CIP. The center section, highlighted in red, are funds that have been authorized in previous FY-year budgets. And, you will note items like the bond, which has been authorized for a number of years now, are showing up as previously authorized funds. Continuing to the green section, following after the coming year, that shows you when we're planning to ask for additional funds for authorization. I want to note here for the annual authorization of over \$1,000,000 in the Water Fund, I'll detail it later, but that is for the College Park Road Widening Project that we need to move the waterlines out of the way."

Capital Project Summary Sheet

Mr. Miley: "Capital Project Summary Sheet, once again, starting at the left in blue, would be where we define and provide you with the name of each one of the projects. We give you an item number for each project; please note this is an item number and not a priority number, and the funding for each one of the projects. Centered in red is where we compare the current year's budget to last FY's budget estimate. The example I've provided to you is Solid Waste CIP. All the projects we have listed here were not included in the FY budget Capital

Improvement Plan last year. So, all of it is showing a budget change, because the project didn't exist last year. It had a zero budget. This year, it shows the change. The right, in green, is when we project to spend the money for the project. And, you will see some of these projects we're not looking to actually do work on until five years out."

Capital Project Detail Sheet

Mr. Miley: "The Project Detail Sheet – there's a lot of information on this Project Detail Sheet, and I've broken it into three sections, so that we can better look at each section. First portion would be the financial portion of the detail sheet. In blue is where we look at each one of the funding sources and the totals that have come from each one of these funding sources. From that, you then take the obligated amount from the bottom section, and you see what is still available in the budget for each one of the projects. You'll note as you go through your Capital Improvement Plans and your budget books, you will see some items in the funding source, such as AA 12, which would be annual authorization for FY '12. Because Council has not authorized those funds, they do not appear here in this box. That's just a position where we intend it to be funded and will be updated once it is truly authorized by Council. The right hand section in red, this is where you can follow the budget, the project, through history from when we first saw it all the way to-date and the changes that occurred with the estimated budget each year. In the bottom is the detail contract information of what's going on with the project at any one time, showing the current contract, expense to-date and the remaining available with the project. The center part of your Project Detail Sheet, you will find a project description. This gives us a single point to keep information up-to-date for the project. You'll have to worry less about typographical errors as you moving from place to place, and we have more room to give a good definition of what's going on with the project. Because this project description will describe the project from beginning to end, it will not be a great detail, but it will touch on items, such as all of the streets that are in the area and what we're planning to do with the project. The bottom of the Project Detail Sheet is a project status. This is what will be updated quarterly. That's what you will see the majority of the change that's going on with the documents that are provided to you, and it gives you a snapshot of what's going on with the project at any one given time."

Mr. Miley: "I'm going to spend a minute or so to throw the Capital Improvement Plans for each one of the funds on the screen..."

Chairman Callanan: "Micah, can I just backtrack on those just so everybody knows what the point of both of those were – were essentially. Now, we have a means to objectively view projects in an understandable way to Council. And now, we have a means to actively look at projects that are – that are accurate, so Council can view. So, I mean, you know, that's a great job on both of those. It will certainly be helpful and prevent some of the confusion that has occurred in the past."

Mr. Miley: "...I'll put each one of the Capital Improvement Plans on the screen. I apologize, it's going to be very small text. You'll have to kind of trust me reading some of it to you. It doesn't really show up that well."

Water Capital Improvement Plan

Mr. Miley: “The first is the Water Capital Improvement Plan. As you can see, we have 15 projects going on. We’re looking at some projects that are still five years out into the future. These are Treatment Plant upgrades that we’re projecting to take. These will be taking place once we start getting some turnaround and the residential market starts to grow again. And, the other that I mentioned earlier is in FY ’12. We’re gonna be needing \$1,000,000 for funding of relocating the waterlines along College Park Road. We’re gonna be forced to relocate those lines, because of what DOT is doing with their widening project, and where they’re gonna widen the road, we would be under the road and unable to properly service our lines.”

Sewer Capital Improvement Plan

Mr. Miley: “The next slide is the Sewer Capital Improvement Plan. This is a much longer plan. It’s 28 items. A lot of that’s to do with the work that Steve and his guys are doing with the Asset Management System – starting to look at pump stations, starting to define some of the critical needs with our pump stations as our pumps start to age and impellers start to wear. And, we are looking at the majority of these projects, even though there are 28 listed, you will see a large number of them are four and five years out. That’s because we’re gonna start doing the planning, gathering additional information trying to really detail exactly what needs to be done with those pump stations, prior to them going to failure. As with the Water Project, we do have sewer along College Park Road. In FY ’12, we’re gonna be bringing a request to you guys for about two and one-half million dollars for funding water and sewer line moves along College Park Road. The plan does give you these items that we’re looking at out in the future. It does give us a lot to talk about, so you know what’s on our minds as far as what’s coming up in the next five years. A good part that’s on this budget, you will remember, we’ve been talking about \$34,000,000 upgrade for the Lower Berkeley Plant for quite some time. It goes back, probably, to ten years I’ve been working here expecting what would happen with the Cooper River limits and needing that big, big project to meet those limits. A lot of what has happened through the .10 Rule or the .1 Rule, settlements that are coming back in, we believe, we’re seven to nine years from needing to do that project. We’re leaving it on here, you’re seeing this big \$34,000,000 future bond, but it’s beyond five years out. We just need to keep it as a placeholder, so no one forgets the project’s still out there looming.”

Solid Waste Capital Improvement Plan

Mr. Miley: “And, the final one is the Solid Waste Capital Improvement Plan. Colin will speak in much more detail to this in a few minutes, so I’ll just put it up on the screen to match the other two we’ve looked at.”

Series 2005A Water and Sewer System Bonds

Mr. Miley: “Last year, we provided you with a look at the ’05 Bond Issue with the original issue, the interest that had been earned and what we had estimated spent or the covert on the projects to-date. Right now, with everything that we have done or are planning to do, there’s a remaining 630,000 of uncommitted funds in the ’05 Bond Issue. And with that, I will turn it over to Colin to talk for a minute about Solid Waste.”

Challenge #2 – Funding the Solid Waste Capital Plan

Mr. Martin: “Thank you, Micah. I think a kind of a little or easily read snapshot of the Capital Improvement Plan for Solid Waste – first thing I’d like you to notice is that most of these projects are driven by regulatory requirements. We don’t have a choice whether we do them or not.”

Solid Waste Capital Improvement Plan

Mr. Martin: “Certainly, #1, #2, #4, #5, #6, #7 and #10 are all regulatory items, and if you notice, those are the big ticket items.”

Solid Waste Issue

Mr. Martin: “For demonstration today, we say we are going to put out a Solid Waste Bond this year, Fiscal Year ’11, the budget year we are talking about. This all adds up to almost \$12,000,000 across five years. The problem is, as we indicated earlier, the Solid Waste revenues are down and predicted to stay down for awhile. So, it makes it very difficult to go out and get a bond when you really don’t have the means to pay for it. So, we have another way that we think is better, and it has to do with combining all the funds, the two funds, the Sewer and Water Fund with the Solid Waste Fund. If we can do that, then we’ve already identified that we can meet the Ancrum Sewer requirements, because of changes in the growth patterns of the County from when this was originally planned and free up some money in that project. Then, we can use the unencumbered proceeds to fund the Solid Waste Capital Projects. This is a very intricate process of combining funds, because of all the Bond Ordinances that are involved that would have to be changed. So, I’ll ask Michael – are you going to speak to that?”

Mr. Michael Seezen, representing McNair Law Firm: “Hello, everybody; my name is Michael Seezen. I’m here with McNair Firm. My partner, Dan McLeod, is also here. We flipped a coin beforehand to see who would get to talk to you, and I won, so – in general, when we were contacted by Colin and Johnette about six to eight months ago, they kind of outlined the same problem. We’ve got proceeds of an existing Water and Sewer Issue that was done five years ago. The proceeds that are remaining in the bank account have been identified for a use, but they can’t be spent until sometime has passed. On the other hand, the Solid Waste System has certain capital needs, and the Authority is trying to determine how best to fund that in the short term, certainly before the Water and Sewer proceeds would be spent. The two options that were outlined were, first, as you can see on the slide, that new Solid Waste Bonds would be issued. The advantages, it says none are identified here, but of course, you’d be able to finance the projects. The cons really are the costs that would be incurred by the issuance. You have to go out and do a new bond issue, so that would involve some kind of cost. You’d have to go out and to the marketplace now, and there is, you know, some degree of instability, I suppose. In addition with revenues being as Colin mentioned, now isn’t the best time to further burden the Solid Waste System. The second option, which we’ve been talking with him for several months, is to make use of what the County already has. There are three principle ordinances, two that relate to the Water and Sewer System. There was one that was enacted in ’93. There was one

that was enacted in 2003, and there's a Solid Waste Ordinance, which was enacted in 1996. Those three ordinances each relate to specific types of bonds that can be issued. The Water and Sewer Ordinances, of course, that's under which the Lion's share of the Water and Sewer debt has been issued, about \$180,000,000 of bonds. Those bonds mature over a great many years up to, I think, 2030. I think, it's for another 20 years. Under the Solid Waste Ordinance, you have the benefit of only about \$6,000,000 or \$7,000,000 of bonds that have been issued and are outstanding. There are only three bonds that have been issued. They're privately held. They're held by banks. In fact, I think there are only two holders, so you have a much more centralized ownership of bonds. The process would involve amending all three of the Bond Ordinances to change what the definition of system is. So, instead of it just being the Water System, Water and Sewer System or the Solid Waste System, you'd expand it to be the combined system. The advantages, of course, as Colin has mentioned before, it would allow to use the remaining '05 Bond proceeds or some bond proceeds that have been identified that wouldn't be expended yet to be able to use those for system projects, which would now include a Solid Waste component. It would also improve the debt ratio for the Water and Sewer Bonds. I don't want to throw out too many numbers, Johnette, because quite frankly, I don't know that I would give you the right ones, but as I understand it, I think, based on Fiscal Year '09 information, the Water and Sewer coverage ratios would be approximately, is it 145?"

Ms. Connelley: "133 this past year for Water and Sewer and 178 for Solid Waste, and combined, it would be 139."

Mr. Seezen: "And the 133, I think, also includes the effect of impact and connection fees. If you were to take out the fees, the revenues that would be generated from growth or from the anticipated growth, than the coverage ratios are much lower. So, on a combined basis, I think, as she mentioned, I think, the ratio's about 133. If you lumped all the debt together, and that was paid from all the revenues of the system-wide basis, the ratio would be a little bit less than the Water and Sewer, but it would still be much higher than if you took out the impact fees. Cons – it says no cons identified. Of course, there is some time involved. The process would involve the Supplemental Ordinance to each one of the three Bond Ordinances, so it would require three meetings. We would need to obtain – it's a factual determination of whether you're going to amend the Bond Ordinance. It would not require the consent of the bondholders. This type of ordinance, if there's a determination made that it would add to the security of the Bond Ordinance, in essence, that it would increase the pie that was available for the repayment of all bondholders, it wouldn't require consent; although, it would require some degree of notice, both to the rating agencies, to the bond insurers on the existing Water and Sewer debt, as well as to the holders. There's a requirement in the documents for an opinion of bond, council to be given, both as to the amendment of process, as well as to legality of these proceeds for the system-wide projects. There's a requirement for a financial report that would prove that for the five fiscal years after the system was combined that the net revenues would be sufficient to pay for all of the debt that's issued on parity with the Water and Sewer debt, which is equal to the rate covenant, which is 120%. It would be our recommendation that – as I mentioned, the Solid Waste holders or the Solid Waste Bonds are only held by two holders at this point. It would be our recommendation that at the very least we explore the prospect of obtaining the consent of the holders in the Solid Waste System to be what are called junior bonds under the Water and Sewer Ordinance. The advantage to the County is that as you look at the compliance with the rate

covenant, the rate covenant says that the County has to set fees and charges that are equal to at least 120 percent of the debt service on parity bonds, but only 100 percent with respect to junior bonds. There would be some advantage to the County of being able to subordinate, if you will, what were the existing Solid Waste Bonds as junior bonds under the amended ordinance. That would, of course, require us to talk with the holders, to obtain their consent and, I think, it would be fairly easy to determine whether they would be willing to consent or not.”

Chairman Callanan: “And, if not, then they just become...”

Mr. Seezen: “If they didn’t consent, they would be on parity with the Water and Sewer Bonds, so you would have to set the rates and charges of 120 percent. Now, it might be attractive to them considering the pie was expanding so greatly. The Solid Waste System revenues, I believe, account for about one third of the combined revenues. So, from their perspective, they go from a revenue source of \$10,000,000 to a revenue source of \$45,000,000, in order to pay debt service. In addition, the Solid Waste Funds mature relatively quickly, over the next seven years, as opposed to 20, and, as I said, they’re relatively few holders. They’re not mom and pops. They’re sophisticated and run by professionals.”

Mr. Martin: “If there are other questions, we can get to you later, as well.”

Ancrum Sewer Trunk C-D and F-G

Mr. Martin: “Well, we said here that really is key is be able to unencumber some funds from the ’05 Bond, in order to pay for those capital projects in Solid Waste, and that requires the redoing of this Ancrum Trunk, and I’m going to ask Mr. Miley to address that.”

Mr. Miley: I apologize in advance for this. This is not that easy to follow, but I’ll try to keep it as straight forward as I can. Looking back to the 2003 Sewer Master Plan that was done, and you look along I-26 and what was proposed to go off there. That was when we were entertaining the idea of Mercedes coming into the Blue Bell Site. We were looking for large industrial tracks to come into that area. With that, we were projecting in our Sewer Master Plan about 1.3 million gallons a day coming from what is now, essentially, the Hillwood and the Rockefellow Developments. Those two developments are not going to be wet industries. Those are big box warehouse industries. And, the current projections from that area is around 350,000 gallons a day. So, there’s about 1,000,000 gallons a day less coming from the area from what we were projecting in ’03. I mentioned the ’03 Master Plan, because that was the Master Plan that was most up-to-date, and we were using the ’05 Bond Issue was done. With a 1,000,000 gallons a day coming from that area up here just off the map, the trunk coming down from 60 into what is existing Ancrum Sewer Trunk, this purple line here, that 1,000,000 a day was using up capacity in that area, and it was not enough capacity to serve the center portion of the Parks of Berkeley. With that 1,000,000 gallons a day gone, the very good planning the Parks of Berkeley is doing, we can take the lower two-thirds of Parks of Berkeley and bring it through Pump Station 060 with some small upgrades. Couple that with some of the things that we have run into while designing this gravity trunk known as Ancrum C and D and F and G, the first problem we ran into is a B, storm sewer, big drainage ditch right through here that we couldn’t get across with gravity. Because of that, we’re having to build a new pump station to get the depth of

sewer we needed to get up and serve this line. The next obstacle we ran into is this little blue mark right on the map. That's a fish pond right beside 17-A. It happens to be right where we need to pass for the sewer to go. And the construction cost of building a deep gravity sewer next to a big pond of water is pretty tough. The third obstacle we ran into is a fiber optic duck bank that Bell South, or AT&T now, has under 17-A. Nobody can accurately locate this duck bank for us. We have no idea on the exact depth of the duck bank, whether it goes up and down, and quite honestly, AT&T doesn't even know how many flyers they have in the duck bank today. That presents another construction obstacle for us. DOT doesn't want us to go out and pothole this fresh pavement of 17-A until we're moving forward with the project to really be able to locate it. Now, we'll couple that with the slowdown that's going on in the industry. Carnes Crossing, which is shown here in tan, has done quite a bit of development of the property. They get to sell a house, nor closing, if the contracts with us to build any – start building on any of the lots. Parks of Berkeley, who we were expecting up and running right now, has not broken any ground on doing water and sewer infrastructure into the area. Ancrum F and G has always been noted as a project that was going to be shared costs between developers and Water and Sanitation, in order to fund the project. The two other people who need to fund the project with us really aren't moving forward with projects today with the economy being where it is. So, the long and the short of it is eliminating Ancrum C and D, F and G, and replacing it with a pump station built here, pumping into this existing line. That pump station would be funded by the Parks of Berkeley. Looking to meeting with them on the development agreement that we have going right now signed with the County. Their costs for doing that work would be no more than what it would have been as far as participation in this gravity line.”

PS 060 Upgrade

Mr. Miley: “And, upgrade of Pump Station 60 for us would be at a tune of about 1.5 million. Then, we can take a little over \$12,000,000 project. It will not accomplish the task by gravity, but we would be able to flow the same amount of sewer with the upgrade of that pump station.

Series 2005A Water, Sewer and Solid Waste Bonds

Mr. Miley: “Taking that into account with the slide I showed you earlier showing the 630,000 available today, we would be looking at a 11.3 million dollar cost difference by eliminating Ancrum and rebuilding Pump Station 60. That would give us uncommitted funds of 11.9, Solid Waste demands of 11.8, so, right at 150 of uncommitted funds after the combining of Water and Sewer with Solid Waste.”

Mr. Martin: “Why don't you address the fact that that may grow...”

Mr. Miley: “The other thing with the issuance of value and viability, we'll be looking at the 2007 Water Improvement Projects. 2007 Water Projects are small waterlines that are all over the County extending into some of the areas that have asked for service over time. It is very likely that some of these areas won't score very high when we push it through the value and viability. So, the potential here of that 2.3 that's right now budgeted for the 2007 Water Projects could increase this uncommitted funds as well. We still have a couple of big projects lined up

for construction, and you did see with the Lower Berkeley Project, we still had some uncommitted funds there, and that detailed project, project savings would shift there as well.”

Chairman Callanan: “Have any questions on this?”

Committee Member Farley: “So, you’re talking about a forced main coming around, eliminating Ancrum gravity and putting the force in as Pump Station 060.”

Mr. Miley: “Yes, Sir. The plan for Parks of Berkeley about to right here (pointing to map) can be served by gravity right now, going down into this Pump Station 60 section, about right there (pointing to map) is the dividing line. So, the force main would actually be from in this area to right here (pointing to map) and with gravity flow through the system. Out of Pump Station 60, following Sangaree Boulevard is a force main to about right here (pointing to map). From this point on is a gravity main as well.”

Chairman Callanan: “And what’s the total capacity once you do those upgrades?”

Mr. Miley: “Doing the upgrades of that line with peak, we are looking at a peak flow of 3.3 to 3.5 million, which gives us an average flow of about 1.9 to 2.8 through that section. And, granted, a lot of that stuff is still being tweaked now and looked at. I haven’t selected final pump impellers and those kind of details with Pump Station 60 pumps, and that can actually shift one way or the other, but a bit. The limiting factor in there is a peak flow of right at 4,000,000 gallons a day. So, if the station is upgraded, it could get as much as that high.”

Use of Bond Proceeds

Mr. Martin: “I’m shifting topics now to the notion of using bond proceeds. We talked and went back to the minutes of this workshop last year, and there was discussion about if we cancelled projects, why don’t we use those proceeds and just pay down our debt, because we’re running that high debt, 44 percent debt. So, we investigated that with Brian Nurick, and he’s going to talk about why that is not a viable alternative.”

Mr. Brian Nurick, representing Ross, Sinclair & Associates: “Thank you very much; Brian Nurick with Ross, Sinclair & Associates; we act as financial advisor to the County. I guess, when this whole process started it was based upon the beginning topic of Brian, reduce our debt. And, I guess, fortunately and unfortunately, you have the option of issuing two types of bonds. You have tax exempt bonds, and you can also issue taxable bonds. Tax exempt bonds have a lower rate of interest, but come with a lot of rules, and taxable bonds would be just like a home mortgage, very little rules. Well, the 2005 Bond proceeds are tax exempt bonds, and so, we have to follow rules that are dictated by the Internal Revenue Service. And, the first rule is there is a process that if you issue a bond for a certain amount, and you complete all the projects, and you have excess money, you can pay off bonds early. And, that process requires you to close out all the projects. So, this isn’t something that you can do today if you still have projects on-going. This is something that you can do in the future. So, I think, from a timing perspective when we looked at if we have excess funds available, could we just go ahead and pay off bonds right now, the answer is no. That’s not how the process works under the tax exempt bond rules.

When you do that process, there are folks that represent you on the legal side that are tax attorneys, and this process always creates sirens in their head, and that's because in a doomsday situation, the IRS could come in and do an audit, and the audit would be to determine whether or not you issued bonds in an amount in excess of what you needed. What we call those in the industry is – we call them hedge funds – that you issued bonds for the purpose of trying to hedge interest rates and make money and things at the benefit of the tax exempt nature of debt. We do not believe if it was properly documented that that process would play itself out, but it is a risk, and it is a process that you potentially do go through. It just needs to be disclosed. The second is that when you issue bonds, tax exempt bonds, they have a prepayment option. And, 10 years from the date of issuance is the standard option that you can prepay bonds early at part with no penalty. So, if you issued bonds in 2005 and 2015, you can pay those bonds off without a penalty. If you were, under the 2005 bonds, were to close out the projects and have excess funds and pay off bonds, that payoff date would not be until 2013, and you can invest that money until that time, but as we know, current interest rates are very low. It's great for borrowing money; not so great for investing it. So, we have to point out that the use of bond proceeds that you have in your hands today to pay off bonds, there is a negative arbitrage component to it, that's a cost, that needs to be factored into the decision-making process. The next point is that you would probably see very little benefit in terms of near-term payments, and the reason is that part of the process of paying bonds off early is that you pay them off in the inverse order of maturity. That means if you have a – you can think about your payments from Payment 1 to say Payment 30, that when you pay off bonds, you're reducing the term of your loan, you're paying the principle that would mature last. So, that means the only benefit that you see up front is a reduction in your interest expense. And, I ran some numbers, and if you were to pay \$10,000,000 off of the 2005 Bond Issue, you would see about a \$437,000 a year benefit in terms of reduction in interest expense. And then, when you reached your final payment, you would have \$10,000,000 less in that year of principle due. So, you're really – it's sort of like your home mortgage refinancing for a shorter term – same kind of concept. Lastly, would be that if you did go through the process of wanting to use – to close out your projects and use these bond proceeds to pay off debt, we would highly recommend that we put together some sort of documentation or fact pattern that we put in the file – just like we do rebate and arbitrage on bond issues – we would have in case there was an audit by the Internal Revenue Service. We could pull them out and detail for them that this was a planned out process. This wasn't something that anyone did for the purposes of having a hedge bond. After we worked through all this process, I think, that's when we moved towards is there a better option and is there a need at any level to redirect funds that are already borrowed at very low interest rates, under 5 percent, towards future needs that you may have. And, I think that is the set of facts and circumstances that got us here today. I guess, one of the hurdles that we typically see in this situation is that the tax exempt bond rules have some constraints to them. There's a lot of benefit in that you have low, subsidized interest rates, but there are certain constraints, and this just happens to be one of those constraints.”

Chairman Callanan: “Brian?”

Mr. Nurick: “Yes, Sir.”

Chairman Callanan: “A couple questions – first, if we use – is there a means where the bonds can be – you know, we have like a self-restricted account that we use, I guess, to, you

know, sink the principle down. Is there a means where that count could be restricted or secured in some sort of secured escrow to pre-refund the bonds, so we can essentially take that debt off the books, or no?"

Mr. Nurick: "You can pay the bonds off early. Number 1, you cannot pay them off early – you cannot pay them off before 2015 unless you establish the escrow, and you would invest those funds at the lower interest rate. And then, you would also pay off in the inverse order of maturity."

Chairman Callanan: "I get that, but the question I have is – we've got, let's say this \$10,000,000 that we have sitting in this bonding account. Essentially, we – when it comes to the debt ratio, we're essentially paying interest on or that is calculated out on our total amount that's owed, right, our interest payment is to calculate that out?"

Mr. Nurick: "On the total bond issue that's outstanding, correct?"

Chairman Callanan: "Right; so, is there any way that that \$10,000,000 fund could be secured so that it can essentially look at as a way that we kind of not exactly call the bonds, but pre-refunded them in some sort of secured escrow account? I'm just curious."

Mr. Nurick: "Is the origin of that money the bond proceeds..."

Chairman Callanan: "No."

Mr. Nurick: "...from the original 2005?"

Chairman Callanan: "No."

Mr. Nurick: "It's just money that's just system generated funds?"

Chairman Callanan: "Right; when we pay off the bonds, right, we're paying – when we have a princi... what the bonds worth, we're paying our interest every six months, and then we're sinking in principle payment into an account somewhere, so that when the bonds mature, we have that money to pay off the principle. Am I right on that?"

Ms. Connelley: "Well, just like the \$10,000,000 you're talking about there, we'll pay this month..."

Chairman Callanan: "Ok."

Ms. Connelley: "...will go toward the bond payments that are due June 1st. So, that will be gone."

Chairman Callanan: "Oh, that will be gone."

Mr. Nurick: "Yeah."

Ms. Connelley: "See, what I do, each month, I set aside 1.4 million dollars..."

Chairman Callanan: "Ok."

Ms. Connelley: "for bonds, Solid Waste Bonds, and for Water and Sewer Bonds. And, I do that each month, and then, when the bond payments come due in January, or actually..."

Chairman Callanan: "Is part of that principle now?"

Ms. Connelley: "Yes, principle and interest payments."

Chairman Callanan: "And that principle..."

Mr. Nurick: "Principle to this year."

Chairman Callanan: "So that principle, ok, so that's the principle..."

Ms. Connelley: "It gets cleared out each year."

Chairman Callanan: "Alright; that answers my question. And, the second question I had is if we have – are the same restrictions with regard to paying down these bonds if the funds were not from proceeds from the bonds, but from revenues from Water and Sanitation, because you probably heard earlier, we're at 65 percent fund balance, you know, if we have a situation where, you know, that begins to balloon to unreasonable levels. We want to get our debt level down so we can get our ratio up, and give us a little flexibility to lower rates if we need to."

Mr. Nurick: "Unrestricted funds, if you wanted to in your hypothetical lower your fund balance and take those proceeds to pay down your debt, that's an option too. Each bond issue has certain pre-payment aspects to it, so there is some negative arbitrage. I guess, the one – the one counter argument would be is if you had excess money, do you want to bleed it over time in case you need to redirect it and not borrow additional funds in the future, or do you want to simply just pay down your debt?"

Chairman Callanan: "Right."

Mr. Nurick: "Those are questions, I guess, or options to be debated."

Chairman Callanan: "Sure; ok."

Mr. Nurick: "Thank you."

Mr. Martin: "Thank you, Brian. We've covered a lot of information this evening. We've taken a look at the FY 2010 Projections. We've looked at some of the accomplishments that we were able to achieve this year. We looked at the 2011 Balanced Budget with no fee or rate increases. We've looked at the new methods of evaluating a project so we can bring it to

you with some objectivity. We looked at the new way that you're going to be able to see the detail in the capital projects in the budget. And then, we identified another challenge, and that's the Solid Waste Capital Budget. And, we think we have found, through the combining of the two funds, a method to do that without any additional funds needed. And then lastly, we had this discussion about the use of bond proceeds. So, is there any questions or comments of myself or any of the staff?"

Chairman Callanan: "If we get, you know, if we're sitting here next year with our debt service ratio, what's a comfortable level for that? I know our minimum is one point, but, you know, what's our target level for that?"

Mr. Martin: "I don't know that there is. In a way, I've always thought 1.5 and above is comfortable, but I have no basis of that. It's just kind of something I remember is there. Is there a standard?"

Mr. Nurick: "Really, the market place just looks toward your ordinance, and what the member requirement is. I will say that, you know, on a national level, I've seen coverage ratios as thin as a 110 and as high as a 150. And, I don't believe that there's a magic number. The smaller the system, probably, the higher the ratio. You know, a gigantic system, they probably can get away with a 110, but 10 percent of a small system is probably a number that's different from a larger system. So, somewhere between the 120 and the 150 with some fluctuation, depending upon the economic factors is probably a comfortable number."

Chairman Callanan: "And the – they don't – you know, while we don't want to rely on fees, but they don't – the covenant for that – they don't specify between fees and rates. They just want the one point?"

Mr. Nurick: "Correct."

Chairman Callanan: "Right."

Mr. Nurick: "And, if you don't hit it, then they want to see aggressive action to break that."

Chairman Callanan: "And, so, right now, we're at, before we combine these two funds – excuse me?"

Chairman Callanan: "Right now, before we combine these two funds, we're at a – Water and Sewer are at 133?"

Ms. Connelley: "We're projecting this year that it may be around 125."

Chairman Callanan: "125."

Ms. Connelley: "For Water and Sewer, and that is just projection based on – because it takes in the depreciation and things that I don't – I'm having to guess at this point."

Chairman Callanan: "So, you're talking about this year?"

Ms. Connelley: "FY '10."

Chairman Callanan: "FY '10."

Ms. Connelley: "FY '10. For FY '09, which was the last audited figures we have, we were at 133 for Water and Sewer, and 178 for Solid Waste."

Chairman Callanan: "Ok; and then, you know, and then naturally, when we combine the Water with the Sanitation it goes up."

Ms. Connelley: "Based on – I used the FY '09 figures, and redid the calculation, basically, with combining the two, and it came out 139."

Chairman Callanan: "So, as we continue to go along on this track, and we retire bonds on an annual basis like 10,000,000 this year, that plays in our favor. And then, also, in raising that. And then, also, the, you know, you know, with increased customers and some and so forth that."

Mr. Martin: "The growth will bring us away from that – that minimum."

Chairman Callanan: "Ok, I mean, the point is that we're getting at a point where that if we're putting aside one and a half million dollars in not an awful year, I mean, we did better in fees than we thought we'd do, but it's not a great year for the economy by any means, that we'd become into a situation where things start to turn around and then, you know, that fund balance begins to grow beyond 80 – 90 – 100 percent."

Mr. Martin: "We have identified – right now, there are about 2,400 residential building sites that are ready to be built on and accept our services, right now. So, presumably, you could start other areas, but presumably, the way Berkeley County large tracts are, you'd probably have to eat through that inventory before you start other impact fees. You'd get connections fees, but your impact fees are gonna lag, I think."

Committee Member Schurlknight: "Colin, I have one question you might have mentioned in the presentation. What percentage of the budget is going to debt service?"

Mr. Martin: "For Water and Sewer, it's about 40..."

Ms. Connelley: "43 percent."

Mr. Martin: "43 percent of our operating budget. Yeah, the numbers you saw here go to debt service."

Committee Member Schurlknight: "And that's down from what it was last year?"

Ms. Connelley: "Actually, I didn't calculate the percentages on the FY '11, because they just didn't change. It's pretty flat. It didn't change that much, so it's probably still 43."

Mr. Martin: "As I recall..."

Committee Member Schurlknight: "It's pretty strong."

Ms. Connelley: "Right."

Mr. Martin: "We figured Water and Sewer separately, and then combined them. I think Sewer is actually 45 or 44."

Committee Member Schurlknight: "Is there a good target number for us to look at on debt service and percentages? I know, to me this seems outrageously high."

Mr. Martin: "All I can say is that cuffed other utilities in the area, North Charleston has about an 8 percent debt load. I've heard. I think Mount Pleasant is planning on more debt. They're at about 15 percent now, and they're looking to pick it up quite a bit with their needs of borrowing, but a standard would be lower is better, I guess. You're operating your capital projects out of a savings account. That would be nice."

Committee Member Schurlknight: "Yeah, I think it'd be great if it was 10 percent or less, you know. You can see this is extraordinarily high."

Chairman Callanan: "Then again, we just went over the difficulty we're gonna have in retiring any of that debt..."

Committee Member Schurlknight: "Right."

Chairman Callanan: "...any time soon."

Committee Member Schurlknight: "And that's the whole thing, you've got to keep 15 years, and consequently, you've got to do the best you can with it. Probably, later on, it ought to be matured out to get rid of the dang gone thing. Thank you."

Chairman Callanan: "Any other questions?"

Committee Member Fish: "What about the '06 Bond, is the summary the same way on the '06 Bond as the '05 Bond?"

Ms. Connelley: "The summary on the '06 Bond?"

Committee Member Fish: "Yeah..."

Ms. Connelley: "Oh, you're talking about the summary that Micah did?"

Mr. Miley: “The ’05 Bond, the Series 2005-A Bonds is what has been called ’06 Bond, ’05 Bonds, that is the capping. That is the same bond. If you look on the bond documents, this is Series 2005-A, which is what I am titling them now to make sure we don’t have that confusion. This 2006 was the refunding of swap, which the 2008 redid, but those are refunding. Those are not new projects. All of the projects are part of the 2005-A Bonds.”

Committee Member Fish: “On your list, obviously, this ’06 Bond...”

Mr. Miley: “Is actually 2005-A Bonds.”

Mr. Martin: “It was closed in 2006.”

Committee Member Fish: “I wasn’t sure. It looked like the same fund.”

Mr. Miley: “It was closed in 2006. That was kind of...”

Chairman Callanan: “And there’s no other capital bonds that have any sort of...”

Mr. Miley: “There are no other capital bonds.”

Chairman Callanan: “Capital bonds, right.”

Mr. Miley: “The 2003, which was issued before that was refunded with the 2006 – 2005-A, sorry. Then 2006 swap, because of them, are basically the same.”

Committee Member Fish: “Sure.”

Chairman Callanan: “Any other questions?”

Committee Member Call: “It’s a lot easier to follow than what we’ve seen in a long time. I complement them on that.”

It was moved by Committee Member Schurlknight and seconded by Committee Member Fish to **adjourn** the meeting of the Committee on Water and Sanitation. The motion passed by unanimous voice vote of the Committee.

Meeting adjourned at 7:29 p.m.

June 15, 2010
Date Approved

COMMITTEE ON WATER AND SANITATION

(Standing Committee of Berkeley County Council)

Chairman: Mr. Timothy J. Callanan, District No. 2

Members: Mr. Phillip Farley, District No. 1
Mr. Robert O. Call, Jr., District No. 3
Mrs. Cathy Davis, District No. 4
Mr. Dennis L. Fish, District No. 5
Mr. Jack H. Schurlknight, District No. 6
Mr. Caldwell Pinckney, Jr., District No. 7
Mr. Steve C. Davis, District No. 8
Mr. Daniel W. Davis, Supervisor, ex officio

A **WORK SHOP meeting** of the **COMMITTEE ON WATER AND SANITATION**, Standing Committee of Berkeley County Council will be held on **Wednesday May 19, 2010**, at **6:00 p.m.**, in the Supervisor's Conference Room, Berkeley County Administration Building, 1003 Highway 52, Moncks Corner, South Carolina.

WORK SHOP AGENDA

A. Bill No. 10-12, an **ordinance** providing for the adoption of fiscal year 2010-2011 (**beginning July 1, 2010 and ending June 30, 2011**) **budgets** for the Berkeley County Water and Sanitation and the Berkeley County Water and Sanitation Solid Waste Fund; establishing operational, debt service, and capital improvement budgets for water and sewer; and to provide for the expenditures of revenues coming into Berkeley County Water and Sanitation and the Berkeley County Water and Sanitation Solid Waste Fund during the fiscal year, and to amend the Code of Ordinances, Berkeley County, South Carolina, setting rates, charges and penalties for Water and Sewer and Solid Waste Service by Berkeley County Water and Sanitation with no increase in rates or fees.

May 12, 2010

S/Barbara B. Austin, CCC

Clerk of County Council